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August 3, 2007

Mr. Jim Pignatelli
President and CEO
UniSource Energy
One South Church Street
Mail Stop UE181
Tucson, AZ 85701

**Re: Unisource Natural Gas Company's Over-collected Bank Balance; Proposal to
Return Some of the Over-collected Surcharge to Customers This Winter**

Dear Mr. Pignatelli:

On July 18, 2007 Unisource Natural Gas Company ("Company") filed a report with the Commission indicating that the Company has once again over-collected from its customers through its gas surcharge mechanism. While the surcharge has now expired, lower than expected gas prices caused the Purchased Gas Adjustor ("PGA") bank balance to become over-collected by more than \$10 million in recent months.

Rather than propose a method for returning some of the over-collected bank balance to its customers, the Company has stated that it would like to retain its customers' funds because the Company anticipates that sometime in late 2008 gas prices could rise to the point that the bank balance might be under-collected. What is more, while the Company states in its filing that the bank balance will become under-collected in early 2008, it fails to mention the fact that it will only be under-collected for two months and by less than \$1 million. The bank balance then reverts back to an over-collected position, and does not become significantly under-collected until late 2009.¹

While I certainly understand the Company's desire to leave some sort of cushion in place should gas prices spike, I must object to the notion that all \$10 million should remain in the hands of the Company. If circumstances were reversed, as they have been in the past, and UNS Gas believed that its customers were not paying enough to cover the Company's gas procurement costs, the Company would waste little time in filing for a surcharge increase. In fact, UNS Gas has filed at least twice in three years for increases to its surcharge when the PGA bank balance became significantly under-collected.

Today, we are faced with a situation in which the PGA bank balance has become seriously over-collected. The current threshold at which UNS Gas must file with the Commission for a

¹ See attached Projected Bank Balance graph provided by the Company to my request on July 30.

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determination regarding whether a refund is owed to customers is \$6.5 million in over-collections, meaning that that the bank balance currently has stretched \$4 million beyond the threshold for a filing under the Company's tariff.

Therefore, I am requesting that the Company make proposals concerning a method for addressing the over collected bank balance. Specifically, I would like the Company to propose options for the Commission's consideration that would credit customers' bills for some of the over-collected surcharge funds during the winter of 2007-2008.

Thank you for your consideration of this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Kris Mayes", written in a cursive style.

Kris Mayes
Commissioner

Cc: Chairman Mike Gleason
Commissioner William A. Mundell
Commissioner Jeff Hatch-Miller
Commissioner Gary Pierce
Lace Collins
Ernest Johnson
Heather Murphy

Projected PGA Bank Balance

Prices vs Mkt Sales vs Fost

100% 100%

PGA Factor PGA Surcharge

Current Forecast

Base Rate
 - Upr Bank Bal Thrsld
 - Lwr Bank Bal Thrsld

